NGFS: ORIGINS AND MANDATE

The NGFS is a coalition of the willing, a voluntary, consensus-based forum whose purpose is to share best practices, contribute to the development of climate- and environment-related risk management in the financial sector, and mobilize mainstream finance to support the transition toward a sustainable economy.

The NGFS issues recommendations which are not binding, but are aimed at inspiring all central banks and supervisors and relevant stakeholders to take the necessary measures to foster a greener financial system.

Since then, the NGFS has grown to 46 Members and 9 Observers representing 5 continents.
"The continuously increasing number of contributors to the NGFS shows that more and more supervisors and regulators worldwide recognize the need to combat climate change and are convinced of the vital role the financial sector must play”

**F. Elderson** (Chair of the NGFS and Executive Board Member, DNB)

"Through the NGFS, we are working with more than 45 other central banks and supervisors to enhance our role in the greening of the financial system, and the managing of environment and climate related risks“

**A. Orr** (Governor, Reserve Bank of New Zealand)

"Since the NGFS’ inception, the momentum of joining this network has been accelerating, reflecting a growing awareness among financial authorities to take urgent action“

**A. Jouahri** (Governor, Bank Al Maghrib)

"The recent recommendations of the NGFS provide a good basis for climate action by all central banks globally“

**O. Rehn** (Governor, Bank of Finland)

"In this regard, the Bank is actively involved in working together with the NGFS to develop an analytical framework to assess such risks“

**Datuk Nor Shamsiah** (Governor, Bank Negara Malaysia)

"Today, the NGFS has nearly 50 members: it works concretely -and with great enthusiasm- to ensure that banks and insurers better integrate climate change risks and promote green financing“

**F. Villeroy de Galhau** (Governor, Banque de France)

"Last but not least, last teay the RBA joined the NGFS, a group of central banks that are examining climate issues“

**G. Debelle** (Deputy Governor, Reserve Bank of Australia)
Climate change source of structural change in the economy/financial system with a number of specificities:

- Far-reaching impact in breadth and magnitude
- Foreseeable nature
- Irreversibility
- Dependency on short-term actions for medium/long term impacts
- Non linearity and tipping points

Climate-related risks are a source of financial risk (in particular physical risks and transition risks). It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks.

Highly likely that climate-related risks are not properly reflected in asset valuations.

Ultimately, mobilize mainstream finance to support the transition toward a sustainable economy.
NGFS: ORGANISATION OF THE WORK

WS1: Ma Jun
(People’s Bank of China)
Microprudential/supervisory
- Mapping of current supervisory practices
- Encouraging climate-related risks disclosure
- Considering the extent to which a financial risk differential exists between ‘green’ and ‘brown’ assets

WS2: S. Breeden
(Bank of England)
Macrofinancial
- Sizing the impact of climate related risks on the economy both in the central case and in the event of tail scenarios
- Transmission channels of climate-related risks to the economy and the financial system
- Identify areas where further research is needed

WS3: S. Mauderer
(Deutsche Bundesbank)
Scaling up green finance
- Leading by example and Greening the activities of Central Banks and supervisors
- Understanding/monitoring the market dynamics of green finance
- Being catalysts for a sound scaling up of green finance
Published on 11 October 2018, on the occasion of WB/IMF Annual meetings in Bali
NGFS: FIRST COMPREHENSIVE REPORT (APRIL 2019)

- Published on 17 April 2019, on the occasion of a high-level conference held at Banque de France
Central banks and supervisors

1. Integrating climate-related risks into financial stability monitoring and micro-supervision.

2. Integrating sustainability factors into own-portfolio management.

3. Bridging the data gaps.

4. Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing.

Policy makers

5. Achieving robust and internationally consistent climate- and environment-related disclosure.

6. Supporting the development of a taxonomy of economic activities.
Macroeconomic and financial stability
Implications of climate change
July 2019

Published on 23 July 2019
NGFS: SRI GUIDE FOR CBs’ PORTFOLIO MANAGEMENT (1/3)

• Published on 17 October 2019, on the occasion of WB/IMF Annual meetings in Washington
1. Introduction

2. Central bank portfolios
   2.1 Policy portfolios
   2.2 Own portfolios
   2.3 Pension portfolios
   2.4 Third-party portfolios

3. SRI objectives and scope
   3.1 Financial SRI objectives
   3.2 Extra-financial SRI objectives

4. Strategies
   4.1 Negative screening
   4.2 Best-in-class
   4.3 ESG integration
   4.4 Impact investing
   4.5 Voting and engagement

5. Monitoring
   5.1 Monitoring process
   5.2 Monitoring metrics

6. Reporting
   6.1 The case for central banks’ disclosures
   6.2 TCFD reporting by central banks

7. Implementation case studies
   7.1 Responsible investment at Norges Bank
   7.2 ESG integration at the Banca d’Italia
   7.3 Impact investing at the Banque de France
   7.4 Green bond investments at the Magyar Nemzeti Bank
   7.5 Exercising voting rights at the Swiss National Bank
   7.6 External manager selection at De Nederlandsche Bank
   7.7 SRI at the Banco de México
SRI in central banks’ portfolios

The NGFS survey covers 27 central banks. In total 25 manage one or more portfolios for which SRI is already included or under consideration. Of these 25, all have adopted, or are considering adopting, SRI principles in their own portfolios. For the policy portfolios, pension portfolios and third-party portfolios, the survey results are more balanced, as roughly half of the respondents indicate that they have adopted, or are considering adopting, SRI principles in these portfolios.

These relatively high shares reflect the broad definition of “the incorporation of SRI principles”, which covers varying strategies and may be applied only to specific parts (asset classes) of central banks’ portfolios (see chapter 4). Moreover, as outlined in paragraph 2.1, policy portfolios can serve different functions across central banks. Most central banks that apply a form of SRI to their policy portfolio, indicate this refers to their foreign exchange portfolio.

Note: 27 respondents. In total, the surveyed central banks manage 68 portfolios: 24 policy portfolios, 12 pension portfolios, 15 third party portfolios, and 17 own portfolios. Note that there are 17 own portfolios managed by 15 central banks (two respondents have 2 separate own portfolios). The survey only included pension portfolios that are part of central banks’ balance sheets. This means central banks’ pension portfolios managed by an independent entity are not represented.
In April 2019, the NGFS decided to prepare a number of technical documents (by mid-2020) on:

- Climate and environment-related risk management for supervisory authorities
- Climate and environment-related risk management for financial institutions
- Scenario-based climate risk analysis
- Incorporating sustainability criteria into central banks’ portfolio management (October 2019)
<table>
<thead>
<tr>
<th>Courses of action</th>
<th>Possible measures by supervisors</th>
</tr>
</thead>
</table>
| **Raising awareness and building capacity among firms** | • Raise awareness of the relevance of climate-related risks publicly and during bilateral meetings; survey firms on the impact of these risks; lay out a strategic roadmap for the handling of climate-related risks.  
  • Build capacity by convening events to progress the translation of scientific findings to financial analysis; set up working groups with firms, for example, on incorporating climate issues into risk management or scenario analysis. |
| **Assessing climate-related risks** | • Develop analytical tools and methods for assessing physical and transition risks related to climate change both at a micro- (financial institutions) and macro-level (i.e. the financial system).  
  • Conduct and publish an assessment of these risks at a macro- and micro-level.  
  • Analyse potential underlying risk differentials of "green" and "brown" assets. This pre-supposes that the supervisor and/or jurisdiction have agreed on definitions and classifications for "green" and "brown" activities. |
| **Setting supervisory expectations** | • Issue guidance on the appropriate governance, strategy and risk management of climate-related risks by regulated firms.  
  • Train supervisors to assess firms’ management of these risks. |
| **Requiring transparency to promote market discipline** | • Set out expectations for firms’ climate-related disclosures in line with the TCFD recommendations.  
  • Consider integrating climate-related disclosures into Pillar 3. |
| **Mitigating risk through financial resources** | • Consider applying capital measures in Pillar 2 for firms that do not meet supervisory expectations or with concentrated exposures.  
  • Based on the risk assessment outlined above, possibly consider integrating it into Pillar 1 capital requirements. |
NGFS: COMING DELIVERABLES (3/3)

Strength of response

Based on whether climate targets are met

Met

Disorderly
Sudden and unanticipated response is disruptive but sufficient enough to meet climate goals

Not met

Too little, too late
We don’t do enough to meet climate goals, the presence of physical risks spurs a disorderly transition

Orderly
We start reducing emissions now in a measured way to meet climate goals

Hot house world
We continue to increase emissions, doing very little, if anything, to avert the physical risks

Transition pathway

Transition risks

Physical risks
NGFS: USEFUL WEB LINKS

• NGFS « A Sustainable and Responsible Investment Guide for Central Banks’ portfolio management » (October 2019)

• NGFS technical supplement to the comprehensive report (July 2019)

• NGFS « A call for action » report (April 2019)
  https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

• NGFS first progress report (October 2018)

• NGFS website (https://www.ngfs.net) and NGFS Twitter account: @NGFS_